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EDITED TRANSCRIPT

GE - General Electric Co. at The Electrical Products Group Conference

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Obviously, Jeff Immelt doesn't need any introduction. Thrilled as always to have you here. Thank you for sponsoring lunch.

I also want to remind everybody that even with Jeff we will be accepting buy-side questions by BlackBerry -- or sell-side if you want to do it that way, too -- anonymously; and I can always be shot on the side.

All right. Thanks, Jeff.

Jeff Immelt - *General Electric Company - Chairman, CEO*

Great, Steve. Thanks. Good morning, everybody. It's great to be back to my favorite resort in Florida. I just want to say that at the outset. I am thrilled to be here once again.

Same themes you're going to hear from us -- portfolio value, industrial growth, smaller GE Capital, good capital allocation. You're going to hear that through the presentation today.

I'm afraid I'm not going to have a lot of late-breaking news on the economy that is going to be different than what you have heard. We see the US getting a little bit better every day.

Emerging markets for us continue to be very strong. I would say a good blend of countries, and China is good for us; so we see good growth there.

Europe and Japan we are not counting on much. I thought I would give you a little more color on Europe. I think we see second quarter being better than first quarter; places like the Nordic regions continue to be strong. But Western Europe is quite tough, so we are not counting on anything great out of Europe this year or next and we are planning accordingly. So that is the lay of the land, I would say, from a global economic standpoint.

We have no real change to the framework that we have got for the Company from the first-quarter call. We adjusted Power & Water after the first quarter, but all the businesses are really performing per our expectations. Aviation and Oil & Gas continue to be super strong; Healthcare and Transportation have great strength outside the United States; Energy Management and Home & Business Solutions are going to see margin accretion during the year; and Capital continues to be solid.

So that is the portfolio and how it is performing. We don't have any change to the framework for our earnings or our EPS for the year. We see us getting good, solid growth in both of those.

No change on cash. We still expect to have a good year in cash. And we said in the first-quarter call that our organic growth would be at the low end of the range; no change to that.

We think risks and opportunities are more or less balanced for the year. The way we try to keep a buffer for ourselves is by running our cost play even harder and having a lot of cash and being able to do more buyback, if that is a choice we want to make. So that is the way we look at where the year is.

You know, the strategy of the Company is unchanged -- have a big industrial company; a value-creating GE Capital; four big imperatives -- technology, services, globalization, simplification. That is how we run the place.

We laid out five goals for the year, three of them are in great shape. Right now we have got to push harder to achieve better industrial growth, and that is what we plan to do. But these are the five goals we have got for the leadership team and how we pay people and how we manage it for the year.

I'm going to spend a little bit of time just going into a little bit more detail on the portfolio itself. We talked about at year-end wanting to get industrial earnings to 70%; always prioritizing dividends; having a strong payout at a great dividend payout.

We continue to invest in our Industrial growth. We will probably do about $10 billion of acquisitions. Between CapEx and R&D we spent about $10 billion here in Industrial. On an ongoing basis we think acquisitions are $3 billion to $5 billion.

Our long-term goal is to grow our Industrial earnings 10% and have high returns. Last year our Industrial return was a 16% grow over time.

And in financial services, we have set a target to get GE Capital down to $300 billion to $350 billion by the end of '14. That is going to create excess cash in GE Capital, and we are going to use that excess cash to buy back stock. We would like to get our share count down to 9 billion to 9.5 billion shares by the end of '15.

So that is the way we think about the portfolio and creating value.

When we were in the crisis we painted what I would call Phase 1 for GE Capital, to get down to $440 billion of ENI. We had some principals. I think what we are saying to investors today is that we have got the next phase outlined, getting the portfolio down to -- or getting the ENI down to $300 billion to $350 billion of ENI; continue to do run-off of non-core assets, to basically look at some staged exits of value-maximizing platforms. So we are going to do that.

And we are going to continue to grow the core. We have a great core franchise in GE Capital of midmarket lending, where we have strong number 1 positions, good returns.

So when you think about Capital over the next few years, it is going to be slower smaller, lower ENI, but still high returns. We will get gains on sales as we transition these assets. We will do staged exits of the assets over time, where a lot of the optionality is in our control.

And GE Capital is super strong financially. Our Tier 1 ratios are high, our liquidity is strong, our risk management is excellent. So this is the way to think about GE Capital over the next few years -- smaller, probably exiting a few of the value-maximizing portfolios over that time period and still extremely profitable, extremely valuable, an extremely strong franchise.

Industrially, we want to continue to grow the Industrial business. Our long-term goals are to grow organically 5% to 10% and expand margins.

I think if we think about the next couple years some of the keys are to continue to grow our service business; having good, positive earnings growth in Power & Water by '14; getting the most out of Aviation and Oil & Gas that have these huge backlogs of higher pricing, to manage those; getting some of our underachieving businesses to do a better job from a margin and performance standpoint; and continue to drive cost. So that is how I think about the Industrial franchise going forward.

Technology is always a big deal for us. We think it is a core competency.

We continue to invest in R&D and launch new products. We use technology as ways to gain and solidify market share in industries like Power & Water and Aviation.

Fill product gaps organically. So I think we have developed more skill set to be able to fill key product gaps organically versus doing acquisitions.

And drive margins. We have invested a lot from of research standpoint, an R&D standpoint in manufacturing and we add tremendous value to our acquisitions. I think people that went to the offshore Oil and Gas conference last week saw a lot of the technology that we are applying to the Oil & Gas segment that has come from other parts of GE.

We have got, I think, real scale and capability from a global standpoint. We think our growth market revenues will be at double digits this year. We will see double-digit growth both in the resource-rich parts of the world and also in Asia.

And we continue to invest in capability. We continue to invest in customer relationships and partnerships. We manage risk, and we leverage cost where it is good places to invest. So again, we view this as a GE core competency just like we do technology.

I think growth markets, you guys have heard me talk about this for the last decade. We have invested a lot in the run rate of the Company to be able to run a play in 160 countries around the world. We have got a big chunk of the leadership team in these regions. We have got 200 factories and service centers, 15 technology centers, and we are a partner of choice in most of the countries around the world.

We think this builds competitive advantage for our investors. We think it allows us to diversify our earnings mix in key markets like Healthcare and Transportation; add acquisition value. A business like Power Conversion and Converteam had a $50 million run rate in Brazil before we acquired them; we took $500 million of orders last year.

When we do a deal like Lufkin, Lufkin has a factory in Romania and one in Argentina. We can blow these places out when we go in and get a new beachhead. So it allows us to do a lot there.

We are doing a lot in shared services and multi-modality sites to drive our cost structure, and we can innovate in these regions. We have great customer innovation centers around the world, three global research centers. So this is about scale and it is about really driving good performance in our growth regions.

Services continues to be a big imperative for the Company. We've got a massively big backlog. We continue to drive iterations.

I would say we have tried to transition our business from a capability standpoint, from going from a break-fix model to one that did long-term contractual service agreements. And today our service business is all about driving customer outcomes and more productivity for both our customers and for us, and we have done a lot on that.

We look at having high capture rate on new products. So when you look at things like GEnx or LEAP-X, the capture rate of long-term service agreement on these engines is extremely high, driving dollars per installed base, which we drive and accomplish by driving a lot more installed base value.

And then driving incremental productivity. So we will get $1 billion of productivity in our service business, and we think our margins will continue to grow.

Now, we accomplish this because we invest in it, and we have invested it consistently. I will talk a little bit about some of the things we are driving from an analytics standpoint; but we are really trying to enrich our contractual service agreements.

When I think about investing in analytics, I always think about driving more contractual service agreement productivity and profitability first. So we drive margins back into our installed base. We add more value.

If you do a contractual service agreement for 10 or 15 or 20 years, you have got to be adding value into that each and every year, and that is what we do. And we run a $4 billion software company inside GE that is totally outside our service agreements. So we think analytics are one of the key ways to do that.

If you can improve time-on-wing by doing a better job of modeling how an engine fails or how it is being run, that is worth billions of dollars for our customers. One point of fuel burn on just the GE installed base is worth $2 billion of margin to our airline customers every year. These advanced gas paths we are putting back into the utility CSA model drives 3 points of efficiency each year.

So when you think about why services are valuable through the economic cycles, this is the way we can add value. Now, if you look at our business this year, all of our service businesses will have positive earnings this year, and we are counting on Power & Water being flat. But the rest of them will either double-digit or single-digit earnings.

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We will generate 100 basis points plus of service margin this year, and we will grow backlog. So service is critical to us. We invest in it, and we want to continue to grow in the future.

Then simplification -- GE is both a cost play and a cultural play. We're going to get SG&A as a percentage of revenue down to 15% by 2014. We will be down 150 basis points this year; we will go from 16.5% down to -- or from 17.5% down to 16%.

We're doing a lot of work in terms of shared services, reducing P&Ls, reducing layers. We are taking 20% of the structural costs out of Europe. We are reducing ERP systems, things like that, so we're doing a lot on structure.

But at the same time we are redoubling our efforts in terms of market intensity and speed inside the Company. We've got lots of process improvement work that is going to be at the heart of this. So we think driving long-term costs out, and simplification, and driving speed in the culture is really critical.

What we try to do at each EPG is go through and single out the things that are most interest to you in the context. So we -- here is what we went in 2012, an update on where we are seeing '13. And I think the four things that are on your mind as we talk to you -- margins, Power & Water cycle, where Oil & Gas is going, and capital allocation for the Company. So I am going to go through each one of those in more detail.

Our margin plan this year is back-end loaded to get to 70 basis points. This is not an atypical GE pattern; this year looks a lot like 2006 and 2010 in terms of the profile. The second quarter is trending in line with our expectations today in terms of margins.

I think the way to think about this is we have got Power & Water profiled for the second half. We have got line of sight on the units we need to accomplish this in the second half.

But the other buckets are already in pretty good shape. We are running a big positive value gap; our service productivity is strong; our simplification is gaining momentum.

So those levers are going to continue to be strong, and we see a good line of sight to the Power & Water units as we look at the second half of the year. And these are probably the six big productivity drivers that we look at in terms of how to think about the Company.

Value gap was negative in 2011; was positive in 2012; 2013 will be even more positive from a standpoint of value gap. We've got pricing already in the backlog, in a lot of the businesses that we are in.

We are calling the Power & Water OPI to be about flat, Healthcare down a little bit, but the other ones are very strong. We just see great improvements in Aviation and Oil & Gas in terms of the backlog. Transportation, we've done a lot on our supply chain to drive better value gap and this is very important for the business.

We are doing a lot in manufacturing. I showed the Aviation example, but a lot is in terms of new manufacturing devices. So additive manufacturing is going to be a big part of the future engines. We talk about a fuel nozzle, but there will be other parts.

What we call CMCs -- so these composites, this is proprietary GE technology. We own the manufacturing, okay? We're the only guy that is going to be doing this, and this drives big fuel and capability and a lot of patents around that.

We have built lower-cost sites in our Aviation business and we have captured more of the supply chain. So, deals like Avio and some of the other deals, we are just driving these four things.

The way to think about this from an investor standpoint is we will probably have 20% more content in the engines that we are launching in the second half of the decade versus what we have had in the past. So I think that is just a way to improve margins and gain more competitive advantage as time goes on.

And we continue to do process improvement. Subsea is a key place where we have to get the margins up vis-a-vis how we run the business.

We have had a team called Winning in Subsea that is 50 people, 30 of them from the audit staff, 16 projects; and these are working on deals as quoted, as delivered. So we think we will get -- we will really double the op profit rate in this business over a couple years, and that is the kind of work that we have got to continue to get done. So that is margins.

On Power & Water, this has been a long cycle that is playing out, but I would just give you a couple pieces of context. One is, we will ship this year more or less the same units we shipped in the late '90s and we will make 10 times more money.

So as we have built the installed base of a decade ago, we have really built out a great service business. We built out a diversified portfolio. It is a high-return business. So if you look back I think we have done the right things around the Power & Water business over time.

Then when you look forward we are forming, I would say, a bottom. We are getting the PTC re-normalized into the business, and we just think we can run the business without these big spikes in the PTC.

Fundamentally we have built a gas turbine business so that any unit growth in the United States is going to be upside, as you think about where we go from here. So right now we're thinking about positive earnings in 2014 on a very good base with a high-margin business and a high-return business. And we don't have a hangover of a big solar exposure, a nuclear exposure, or other investments that I think create headwind for the business as we look forward.

Now, gas turbines are important. We see that gas over time, the gas blend continuing to increase vis-a-vis the total power generation or the large-scale power generation in the world. The way to think about this is to think about it region by region, in terms of where you could see growth.

We see demand in the resource-rich regions, but you have to hustle for it. The big deal in the resource-rich regions this year is in Algeria. We think we are in the lead position; we believe this is a deal we are going to win.

This is an 8 gigawatts, 8.5 gigawatts, guys. This is not small, right? But you've got to win the resource-rich regions and the countries that are buying, and we have done a pretty good job of that.

Asia, I personally think Asia is going to continue to be a solid growth market. You're going to get demand in Korea, and China is converting more coal to gas. We think we can participate in that growth.

US, it is tough to do worse than 6; maybe that is the best thing I can say about the US. But you are going to get a cycle in the US. There is 60 gigawatts of coal retirements; over time the reserve margin is going to go down. We see some orders and some interest right now in some IPPs and other units in the United States.

And then we are just not counting on Europe and Japan for much growth. So the way you think about this is, if you look back a couple years, we have averaged about 115 shipments a year, we think if you look out over the next five or six years the average is going to be more than that.

Our product line is quite robust, from 1 megawatt up through 300-plus megawatt. GE is going to have competitive products, efficient products in that entire basket. So that is how we see it. But look, this is not an easy market, but there's units out there to be had and we are going to win more than our fair share as these take place over time.

And this is kind of the way we look at the mixture of different drivers. Gas turbines we are not counting on much in the next few years. We think services, a good backlog, profitable backlog, will be about flat this year, up a little bit next.

PTC, the way the PTC is written is it will spread units in '13 and '14. '13 will probably be a little bit better than we thought; '14 will probably be a good solid year.

In distributed power, nuclear, water, these will all be reasonably good volumes and opportunities as time goes on. So that is the way we think about the Power & Water business and the cycle we are in today.

Oil & Gas is a good story. Oil & Gas we continue to grow, we like investing in. We think we have invested in the right segments in the Oil & Gas business, and we like our position in subsea and LNG and measurement and controls.

We think we are in the right places, and we think we have got good solid margin headroom, if you look at Oil & Gas in the next few years. So we think just getting more product standardization, building out the service mix, doing a better job of upfront pricing, doing a better job on acquisition integration, we are going to get a step up in Oil & Gas performance.

The thing that attracted us to Oil & Gas 10 years ago is still the thing that attracts us today. Our customers' need for technical intensity is growing. We think this opens up more of a competitive position for GE.

When you just walk around the chart you see subsea integration, some big opportunities there. A lot on blowout preventers, ways you can do better sensing and better technology around that.

LNG, we did an acquisition a couple weeks ago on LNG with a leading company that does mini-LNG. We think this is a space that could grow as people do fuel conversions in other countries, so this gives us a window on future technology. And this is a place where the Industrial Internet in sensing and technology is really important in terms of where you go in the future, so we think Oil & Gas can be a very positive aspect for us.

Lastly on capital allocation, we have got a core capital allocation case, which reflects the NBC and the CFOA and stuff like that over the next couple years. Then we will get -- as we continue to reduce the size of GE Capital, you're going to get special cash on top of that, $20 billion, $30 billion probably on top of that, as you think about it.

The way we think about GE Capital in particular is the GE Capital dividend is going to go towards the GE dividend; but the special dividends we get from GE Capital are going to go into buyback. Right? That is kind of the way we have framed -- the way we think about the Company going forward.

So if you go to the right-hand side, we spent about $4 billion here on CapEx. We will continue to do that.

Dividends in line with earnings, so we like growing our dividend and we like having a good payout. Buyback, we will do 10 billion this year; and our expectation is by the end of '15 to lower the share count to 9 billion to 9.5 billion shares.

And then bolt-on acquisitions, we will probably do about $10 billion this year, then on an ongoing basis we will do $3 billion to $3.5 billion of acquisitions.

So this kind of fits the balance, the disciplined capital allocation point that I made earlier with just maybe a little bit finer edge on what we will do as we reduce the size of GE Capital. So that is the way to think about where we are there.

Acquisitions, we still have a good pipeline of acquisitions. We like our discipline of $1 billion to $4 billion and generating good returns. We try to do acquisitions where there is multiple ways to win, when we approach the acquisitions that we do.

We have done or announced two big ones in the last, let's say, six months. Lufkin in Oil & Gas -- the way we looked at Lufkin is when we acquired the Wood Group we had a submersible pump, but to be a player in the enhanced oil recovery space there is more segments than just the submersible pump. So Lufkin was on our gameboard as being able in one shot to fill in a lot of the other spaces.

And then there is multiple ways to win. So it opens up our geography; it opens up I think opportunities to work on supply chain.

Lufkin had a gear business where GE was already a customer, so we think there is a supply chain value here as well. So we view this one as a way to invest and have multiple ways to generate good return for investors.

Certainly Avio, this was a supplier of ours where we already had a backlog with the company. We think it gives us complementary skills, allows us to execute on our supply chain strategy. So we like what Avio stands for as well.

So these are two deals that ought to add a couple cents to our earnings next year. Already in place, but I think they are typical of the kind of deals that we like to do.

Lastly, I just thought as you think about the Company going forward you are going to get good, solid earnings growth in the Industrial. I think you're going to get managed -- from a contextual standpoint we are going to be thoughtful about what we do in GE Capital; we are going to do things in staged exits and things like that, but ENI is going to go down in that place.

We are going to up the buyback, and so the buyback is going to be positive. We are going to continue to pay good dividends and grow dividends in line with earnings. We are going to reduce corporate cost, right?

And then when you think about the way the GE leadership team is compensated, our long-term incentive plan, there's really four key metrics. One is growing EPS, so the EPS has to grow. We have to generate a lot of cash both from operations, from doing smart dispositions. The Industrial earnings percentage has to grow. And ROTC has to grow.

So just -- those are the four. EPS has to grow, cash has to grow, Industrial percentage has to grow, returns have to grow. We have picked these four because they work together, let's say; these as metrics work together.

So it is important that we grow EPS while we are changing the Industrial mix, right? You want to be thoughtful, you want to be strategic, you want to have that context, so that you are always doing the right things for investors and things like that. So those two go together.

And you want to be able to generate a lot of cash, but you want to do it with high returns, right? So you want to make sure from an investor standpoint that you are not encouraged to do anything other than disciplined capital allocation vis-a-vis where we go.

So we will have a lot of cash, we will apply it well. Our goal is to grow our earnings while changing the mix at the same time.

So there is no lay-down case that says -- gosh, I can do something that is very disruptive to investors. You do it in a smart, intelligent way.

In my performance shares I have a third metric which is GE's being in the top quartile on margins and returns versus a basket of 20 industrial companies, including both our competitors and other highly respected industrials like Honeywell, Emerson, people like that.

So we basically -- I think we have got you covered from a financial standpoint. Our guys will earn money as we are doing the things that I think are most important to GE investors. And that is how we think about going through this kind of change. So with that, Steve, turn it over to you.

Steve Winoker - ***Sanford Bernstein - Analyst***

Great, thanks, Jeff. We have a number of buy-side questions in, but let's start with one on the sell-side and then I will go to the first buy-side.

QUESTION AND ANSWER

Nigel Coe - ***Morgan Stanley - Analyst***

Thanks, Great. Jeff, just on the ENI target --

Jeff Immelt - ***General Electric Company - Chairman, CEO***

I remember the good old days when we had control of our own destiny. We could call on -- now you're just holding us down, Steve, you know?

Steve Winoker - ***Sanford Bernstein - Analyst***

(laughter) Well, sorry, we want the real answers coming out. (multiple speakers).

Jeff Immelt - ***General Electric Company - Chairman, CEO***

I have got to talk to the other members of the CEO union after this meeting to make sure we defend our rights.

Nigel Coe – ***Morgan Stanley - Analyst***

You trying to say you wouldn't have chosen me, Jeff?

Steve Winoker - ***Sanford Bernstein - Analyst***

You can fly us all into a different resort if you would like. (laughter)

Jeff Immelt - *General Electric Company - Chairman, CEO*

No, no, no. I would miss it too much to ever speak.

Nigel Coe - *Morgan Stanley - Analyst*

Okay, so on the ENI targets, obviously implies at least one chunky disposition. I think we all know which one we are talking about. Do you think you can accomplish that kind of position in the current M&A environment for financials?

Jeff Immelt - *General Electric Company - Chairman, CEO*

Look, I didn't come here today to name any one of them, but I think I'd make a couple comments. I would say, look, I say it is a great -- the capital markets are very receptive to IPOs or a lot of different technologies today. So I think you basically have as good a setting as you could possibly have.

The other comment I would make is, look, the strength of GE Capital in the end is really secured lending connected to the core, highly distributed. So I would say we think about the portfolio, we think the timing is good to be thinking strategically. We think there are a lot of techniques to do it -- whatever we decide to do, there is a lot of techniques to do it in a value-maximizing way.

Steve Winoker - *Sanford Bernstein - Analyst*

Jeff, we have a question from the buy-side here. You can see why on this one. It is anonymous, okay?

So appreciating no formal guidance, lots of estimates around $2 in 2015. Given strategic options around PLCC, how does he feel about that? And I would add, obviously, in light of your buyback commentary.

Jeff Immelt - *General Electric Company - Chairman, CEO*

Again, I am not going to predict 2015 guidance. I would say we think EPS is going to continue to grow, and we are going to be able to do it in the context of having a higher Industrial mix and share count being lower.

Scott Davis - *Barclays Capital - Analyst*

Jeff, one of the main points of your annual letter this year was admitting that GE has become too complex and really promising shareholders that you could simplify it and such. I think we have seen some examples.

But how do you take a company like this that is inherently complex, continue to think about doing bolt-on acquisitions, which in some ways adds complexity -- it doesn't decrease the size of the Company in any way. How do you get there without having major carve-outs? And I would just say for the sake of argument, another NBC-type sale and continuing to get the portfolio down to a very simple, if you will, core. How do you execute on that, I guess, is my question?

Jeff Immelt - *General Electric Company - Chairman, CEO*

You know, Scott, I again, I think just to give you the context in the letter and how I think about it, I think to be successful today you've got to be in 150 countries. We are in markets that are highly regulated and things like that.

I think what we have tried to do industrially is shrink the portfolio around things that are -- so we sold NBC, we sold plastics. We are basically in a high-tech global sale and service type of model industrially.

Then in financial services, I think our idea is to be closer to a commercial finance core and then run the Company with fewer layers, better IT, no orphans, things like that. And I think that is how we see simplification initiative working inside the Company.

So I think we feel like the footprint is pretty close to what is manageable and we need to continue to benchmark ourselves against peers. That is not saying I wouldn't contemplate things like that as time goes on, but I think with NBC, plastics, insurance, we have basically sold half the Company in a decade. That should show you that we are willing to take on those things as time goes on.

Steve Winoker - ***Sanford Bernstein - Analyst***

Jeff, another question from the audience here. Can the Power business margins improve in 2013 if the European service business doesn't rebound?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Basically I would say, Steve, what we are looking at now is more or less margins being roughly flat in Power & Water this year. I think the way you've got to think about that is we are taking a ton of cost out of the business.

So the rest of the Power & Water service business is quite strong. We are not counting on Power & Water service in Europe necessarily getting remarkably better as the year goes on, and we still think we will do okay from a margin standpoint.

And just the equipment, the number of units first-half, second-half drives an incredible amount of change between the first and second half.

Steve Winoker - ***Sanford Bernstein - Analyst***

There is a follow-up here on that. Has the European Power business improved?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Again we are not counting on the European Power business necessarily improving. We think the utilization of power plants is going to stay sluggish this year. We think the demand for new units is maybe only in the distributed-power, not in the big frame units. So we are really not counting on Europe getting better.

Jeff Sprague – ***Vertical Research - Analyst***

Jeff, just to be clear on the EPS outlook or how you are thinking about it, you did mention in your pitch there will be a lot of gains generated. Are gains part of the earnings construct going forward as you are looking to replace some of these earnings that would come with divestiture?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

I would say not necessarily, Jeff. Again I think as we get further on the plans we like to use gains for restructuring. I would say industrially, 100% gains will go into restructuring. Anything we do industrially, in Capital, it is just kind of -- it depends on what -- as time goes on we can use it to offset other things.

So I would count on us basically using the principle of offsetting most of the gains with restructuring, and I don't contemplate a lot of that falling through. But it does allow us -- as we get gains, it does allow us to eliminate headwinds as time goes on. I think that is important as well.

Jeff Sprague – ***Vertical Research - Analyst***

Just another service question. Are you seeing any weakness in the US? It has not been a start, but it looks like there is a little fuel shift back towards coal in the US. Is there any tension on service pricing?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

We haven't seen it yet, Jeff. Our service business in the US in the first quarter was up a couple percentage points. It was a much better performer. Really the story was Europe, and we haven't seen that yet in the US and don't expect it.

Again, we have got a pipeline of 52 advanced gas paths, so that is the interplay. It is just -- guys, when you are in a CSA, an investor shouldn't expect that these are like static agreements. These are dynamic agreements every year. We have been working on these every year, and the best part about a CSA is your interest and the customer's interests are aligned.

So there is a lot of levers and there is a lot of ways to create value inside a CSA. So you've got -- in the US you've probably got -- of the 52 advanced gas paths you have probably got 40 of them in the US, something like that.

John Inch - ***Deutsche Bank - Analyst***

Are you thinking of a 30/70 mix which obviously is an intermediate-term target, do you get there firstly by mixing down to $325 billion of ENI at the end of '14? And are you thinking of that as a long-term placeholder? Because obviously as various cycles kick back up, in theory -- unless you actually start to then grow Capital -- it is going to continue to mix down.

Jeff Immelt - ***General Electric Company - Chairman, CEO***

John, what I would say is we like GE Capital. In other words, the GE Capital in the commercial finance space, we have competitively advantaged space. We are generating new -- underwriting new business at 2 ROI or above, right? You have got very strong competitive positions.

So we are going to grow that. We are going to grow that space. And the goal is to have a good and growing Industrial business, a good, growing Capital business. I think it is just a new starting point, if you will.

John Inch - ***Deutsche Bank - Analyst***

And to manage the dilution -- because obviously some of this stuff could be a little chunky -- is your thought process you're going to do your best with share repurchase? Or is there some other lever you (multiple speakers) ?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Look, again, the way I would think about it is you are going to get good, solid industrial earnings growth. You're going to get to staged exits, so we can manage the dilution over time. You are going to get gains that are going to allow you to do offsets. And you're going to be able to buy back a lot more shares.

So you're going to have a more valuable Company that is still growing its EPS in an effective and a strong way and a competitive way. And you're going to have a lot of cash optionality. I think that is the way I would look at the Company, more valuable Company.

Deane Dray - ***Citigroup - Analyst***

Jeff, just following up on that last point you made regarding the ability to dividend up, you said between $20 billion and $30 billion in special dividends out of Capital. Now we are trying to do the math here on this in terms of -- what we need would be help on some of the timing of this.

Because you are now giving some more insight into share count coming lower than what you had previously guided. So is the $20 billion to $30 billion all predicated on these staged exits, or are there additional --?

Jeff Immelt - ***General Electric Company - Chairman, CEO***

It's going to happen over time, Deane. In other words, you are going to continue to be smaller; you're going to have excess cash; and you're going to have other ways to think about capital allocation as time goes on, as part of the IPO process or other processes like that. But these are all things that we need to go through with our regulators. And these are all things that require us to be in sync with how our regulator looks at the financial service business and things like that.

Shannon O'Callaghan *- Nomura - Analyst*

Yes, Jeff, so in terms of the decision to move forward with staged exits, was that driven by your view of market receptiveness at this point in time, or just where you saw GE as in its evolution? Why put a target out (multiple speakers) ?

Jeff Immelt *- General Electric Company - Chairman, CEO*

You know, again, I think it's -- we never wanted, as we were going through the financial crisis and even today, we never really thought about wanting to do anything we couldn't complete on our own. I think when you look at the capital markets today, these are all things we can complete on our own if we need to.

Then I think on the strategic side, we just like -- we think the Company has -- these are great assets, fantastic. But we believe our commercial finance assets are very strong and very consistent with our competitive advantage. So a little bit of both.

Shannon O'Callaghan *- Nomura - Analyst*

In terms of just -- back to the dilution question, your commitment to grow EPS. Does this mean you would like to grow EPS high singles to doubles, but in a year where you complete Stage I that might not be the case. So you are committing to it still being positive that year and getting better next year?

Jeff Immelt *- General Electric Company - Chairman, CEO*

I'd still think about a staged exit, but my sense is that if you go back to our long-term incentive plan, that has EPS growth consistently every year. That is what the intent is.

We have got a lot of optionalities about how we do this and the time frame that we do it. But again, I think the idea is excess cash applied towards reducing the share count. That is how we think about it.

Steve Winoker – *Sanford Bernstein - Analyst*

What is the next milestone for the LEAP-X engine?

Jeff Immelt *- General Electric Company - Chairman, CEO*

We have got kind of three iterations of the LEAP-X that are being developed -- one for the C919; one for the A320neo; and one for the MAX. So we are getting -- we are gearing up for the first full frame tests, and I think we are on track.

We are kind of ahead of where we were with the GEnx, so our anticipation is to go to rig test probably by the end of this year.

Martin Sankey – *Neuberger Berman - Analyst*

I would like to look at the margin discussion from a slightly different angle. In the presentation there was the slide of SG&A expense going down by about 100 basis points this year. If you look at the first-quarter 10-Q at, SG&A expense was up 130 basis points. So there is two parts to this question.

One is, first of all, how do you see SG&A going down through the year? And are there certain things in first quarter that maybe made it higher than it should have been relative to the year, such as restructuring?

Jeff Immelt *- General Electric Company - Chairman, CEO*

The SG&A margin is where all the restructuring numbers went, and the pension numbers are both in there. So it is kind of a false -- it is a little bit of an apples and oranges. So on the same basis it's down $200 million.

Martin Sankey – *Neuberger Berman - Analyst*

Okay. The second is that, again, if you look at 70 basis points in segment operating margin improvement for the year, 100-plus coming out of SG&A, it implies a lower gross margin for GE with a positive value gap. What am I missing? What is the disconnect?

Jeff Immelt - *General Electric Company - Chairman, CEO*

Again, I don't know specifically. Again I think we have got probably more equipment mix in the second half of the year than service mix in the second half of the year. But I don't -- I think you are going to get good service productivity.

We ought to be positive on the value gap, and we will get SG&A as well. So I will maybe have Trevor or somebody get back you on that.

Andrew Obin – *Bank of America - Analyst*

As we think about nat gas cycle in North America, we are moving towards exporting natural gas, which might have implications for nat gas prices long term. Do you guys care?

Where do you make more money? In Oil & Gas, if we export nat gas, does it offset the fact that maybe we get fewer turbines in North America? How should we think about optionality for you guys?

Jeff Immelt - *General Electric Company - Chairman, CEO*

I don't think we are that smart really, to be honest with you. I think on LNG terminals we make money. On -- with like Chenier and people like that, so we see that as having value content.

I don't think it impacts one way or the other. Gas pricing is so subdued right now that it is still a pretty good trade on coal to gas or some of the others. So I don't think that gas price, even if we export, will get so high it will turn off the demand creation for natural gas on that side.

So I would say we are more or less indifferent on the whole exporting. None of this ever happens as fast as anybody thinks it well anyhow. So that is the way I think about it.

Scott Davis - *Barclays Capital - Analyst*

Jeff, as a follow-up to some of these questions, the plan is pretty clear; the cadence isn't necessarily as clear. But is there a risk that you're moving too slow?

What I mean by that is we have got this big liquidity window that is open now, if you wanted to spin off Appliances and Lighting, if you wanted to sell a major business or exit a bigger portion of the real estate portfolio -- for example, the equity stake. Is there a chance that you're moving too slow and there is a window open now that, if you miss, it may make a very difficult to hit your $300 billion, $350 billion ENI and may put you in a tougher situation? Do you think about it at all like that?

Jeff Immelt - *General Electric Company - Chairman, CEO*

What I would say, Scott, I think it is a fair question. I would say if for whatever reason we miss an opportune window on behalf of investors, that is my fault. You guys would have every right to say -- you made a wrong call.

I don't think we have. Because I think particularly in financial services putting things for sale with the assumption that a bank would buy it has been a fool's journey. So the only way you have been able to think about this is by thinking about IPOs.

So the market I think is open. If we miss it, that is on me. Okay? Yes?

Julian Mitchell – *Credit Suisse - Analyst*

Just on the services business, I think almost all of your profit in Q1 was service, or all of it. So that is I guess the main margin driver for the year. Your services revenues were down in Q1; the orders were down in Q1.

So how comfortable do you feel that services can reaccelerate from here? And which businesses are you seeing that in?

Jeff Immelt - *General Electric Company - Chairman, CEO*

So if you go back to the one page on service, we will have -- of the six big service businesses we have got growth in five of them. So very strong, very solid.

And again, Power & Water in Europe was the one outlier. You've got to remember in service we've got a massive backlog of service that sometimes skews where the orders are coming.

Things like spares in Aviation are quite strong, right? So our spares order rate is very healthy.

Our Oil & Gas orders are good and will continue to be good in the service arena. So again I think we view service as a mid-single-digit grower and -- from a revenue standpoint and a good margin enhancement.

I think Europe, run rate in Europe in Power & Water was the negative in the first quarter. But we still think we will have a decent year in the service business.

Steve Winoker - *Sanford Bernstein - Analyst*

So unless we have another -- we do have a -- is that a hand up in the back? Yes; let's take one more.

Unidentified Audience Member

At the December meeting I got the impression you were leaning in personally on the Energy Management business. What was your take on where to take that business going forward?

Jeff Immelt - *General Electric Company - Chairman, CEO*

Well, look, I think it is a very fragmented business, segmented business, and one where we have historically underachieved our competitors. And it is a place where it is very conducive to linking up with other GE businesses, like Oil & Gas and Power & Water and things like that.

So I would say our main priority is Power Conversion in the business right now, to take the asset we have got in Converteam, and grow it faster. We still see good opportunities for margin enhancement in just about every other corner of the business.

So there is no reason why. I mean that is a place where everybody else in the place does 10%-plus operating profit; we do 2%.

Look, some of the best acquisitions a company like GE can do are by fixing businesses that don't work well. You know? I think the way I would look at this from an investor's standpoint is there is tremendous value that you can create just by running the place a little bit better, and that is what the intent is.

Steve Winoker - *Sanford Bernstein - Analyst*

Jeff, do you want to make any wrap-up comments? And before you do, reminding everybody that Jeff and GE have kindly sponsored a lunch following with management.

Jeff Immelt - *General Electric Company - Chairman, CEO*

You guys good? I think that's it, guys. Thanks.

Steve Winoker - ***Sanford Bernstein - Analyst***

Thanks, Jeff.

Jeff Immelt - ***General Electric Company - Chairman, CEO***

Thanks, everybody.